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CABINET AFFAIRS STAFFING MEMORANDUM

Date: 7/24/84 **Number:** 169035CA **Due By:**

Subject: Cabinet Council on Economic Affairs - July 26, 1984
8:45 a.m. - Roosevelt Room TOPICS: Job Training Partnership Act
Federal Credit Policy

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☑	☐
Defense	☑	☐
Attorney General	☐	☑
Interior	☐	☑
Agriculture	☑	☐
Commerce	☑	☐
Labor	☑	☐
HHS	☐	☑
HUD	☑	☐
Transportation	☑	☐
Energy	☐	☑
Education	☐	☑
Counsellor	☑	☐
OMB	☑	☐
CIA	☐	☑
UN	☐	☑
USTR	☑	☐
GSA	☐	☐
EPA	☐	☐
NASA	☐	☐
OPM	☐	☐
VA	☐	☐
SBA	☐	☐

	Action	FYI
CEA	☑	☐
CEQ	☐	☐
OSTP	☐	☐
Baker	☑	☐
Deaver	☐	☑
Darman *(For WH Staffing)*	☑	☐
Mc Farlane	☐	☑
Svahn	☑	☐
Executive Secretary for:		
CCCT	☐	☐
CCEA	☑	☐
CCFA	☐	☐
CCHR	☐	☐
CCLP	☐	☐
CCMA	☐	☐
CCNRE	☐	☐

REMARKS:

There will be a Cabinet Council on Economic Affairs Planning Meeting on Thursday, July 26, at 8:45 a.m. in the Roosevelt Room.

The agenda and background papers are attached.

DCI EXEC REG

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2

☐ Don Clarey ☑ Tom Gibson ☐ Larry Herbolsheimer
Associate Director
Office of Cabinet Affairs

L-300B

THE WHITE HOUSE

WASHINGTON

July 24, 1984

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER RBP

SUBJECT: Agenda and Papers for the July 26 Meeting

The agenda and papers for the July 26 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The Council will consider two agenda items. The first is the implementation of the Job Training Partnership Act. In October 1982, the President signed the Job Training Partnership Act representing a new approach emphasizing training instead of stipends and a greatly enlarged role for the private sector in determining the type of training that would be provided and by whom. The Act became fully operational in October 1983. The Department of Labor has prepared a status report on its implementation which is attached.

The second agenda item is a report from the Working Group on Federal Credit Policy on recent initiatives by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). A copy of the Working Group's memorandum is also attached.

Attachments

THE WHITE HOUSE

WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

July 26, 1984

8:45 a.m.

Roosevelt Room

AGENDA

1. The Implementation of the Job Training Partnership Act (CM # 167)

2. Report from the Working Group on Federal Credit Policy (CM # 113)

JOB TRAINING PARTNERSHIP ACT (JTPA)
STATUS REPORT

SUMMARY

Signed into law by President Reagan on October 12, 1982, the Job Training Partnership Act (JTPA) relies on a private/public partnership, operating within a block grant framework, to provide training and employment services to disadvantaged and dislocated workers. The JTPA replaces the failed and discredited CETA program with an alternative that focuses on increased employment and earnings over the long-term, rather than short-term, make-work activities. Fully operational in October 1983, after a successful transition, JTPA served about 500,000 disadvantaged and dislocated workers in its first 6 months.

BACKGROUND

The goal of federally administered training and employment programs is to increase participants' regular sector employment and earnings. Successful attainment of this goal will yield a variety of benefits, including lessened dependence on income transfers.

Over the past 20 years, these programs have been directed toward a variety of targets -- counter-structural (disadvantaged and dislocated workers) and counter-cyclical -- utilizing a wide range of service strategies, including: training, job search assistance, social services, public sector employment and cash transfers.

The enactment of the Comprehensive Employment and Training Act (CETA) in 1973 led to the consolidation of many of these activities in one piece of legislation. Originally intended to be a training program, CETA came to be dominated by its public sector employment components, which involved largely make-work jobs or, where the job content was substantive, resulted in the substitution of Federal funding for State and local resources. Over time, CETA also became characterized by fraud and abuse, which led to incresed Federal involvement in all phases of the program.

In its peak year, outlays for CETA were about $9.5 billion. In terms of its overall objective of increasing the employment and earnings of those served, CETA was ineffective; fewer than one-third of those served obtained regular, unsubsidized jobs when they left the program.

Based on the experience of training and employment activities, the Administration undertook to redirect these efforts toward their basic purpose. Initially, the counter-productive public service employment programs were eliminated and outlays for less effective activities, particularly those administered nationally, were curtailed. Major substantive revision was accomplished by replacing CETA with the Job Training Partnership Act (JTPA).

KEY FEATURES AND STATUS OF THE JOB TRAINING PARTNERSHIP ACT

When President Reagan signed the Job Training Partnership Act into law, the Administration had achieved virtually all of its objectives for legislation to replace CETA. Key features of JTPA, all of which reflect the basic principles upon which the Administration insisted, are:

o Targeting - With the exception of the dislocated workers programs, JTPA is means-tested, targeted to the economically disadvantaged; however, up to 10 percent of the enrollees can exceed the means test, if they face other substantial barriers to employment. Through the program's first 6 months, 435,000 individuals had been served in the basic training program. Based on preliminary data, it is estimated that:

  - 95 percent were economically disadvantaged;
  - 68 percent were minority;
  - 53 percent were females;
  - 38 percent were youth (under 22);
  - 42 percent were public assistance recipients;
  - 27 percent were high school dropouts.

  The JTPA continues the Summer Youth Employment Program, which in 1984 will provide about 800,000 temporary summer jobs for disadvantaged youths.

o Dislocated Workers - In addition to programs for the disadvantaged, JTPA authorizes a program of retraining and placement for dislocated workers. Where programs for the economically disadvantaged have been in place for two decades, JTPA's program for dislocated workers is a new initiative. This program targets workers displaced by trade, technology, natural disasters, shifts in consumer preferences, or other factors. The dislocated workers are eligible for retraining, relocation and placement services under this new program. By the end of March 1984, approximately 65,000 individuals had been served by this program, more than originally projected for this effort at this stage of its development.

o <u>Training</u> - To prepare and place individuals in self-sustaining jobs requires that the participants develop basic competencies and skills to levels that will permit them to compete in the labor market. The JTPA requires that 70 percent of a program's expenditures go toward training and remedial education; under CETA, the comparable figure was 18 percent.

Data on the first 6 months of JTPA indicate that about 73 percent of the expenditures are for training. Of the 436,000 served, it is estimated that about 59 percent of the individuals were enrolled in training; approximately 27 percent received placement assistance; the remainder obtained limited support services or public work experience.

o <u>Private Sector Involvement</u> - With at least 80 percent of the Nation's jobs in the private sector, the success of any labor market initiative will depend on the extent to which its graduates meet the demands of private employers. To assure responsiveness, JTPA establishes local private industry councils (PICs) -- with the majority of the membership composed of employers. The PICs, in partnership with local elected officials, plan, implement and assess local JTPA programs.1/ This private/public partnership makes JTPA unique among social welfare programs in the authority that it assigns to local, private employers.

Analyses of the program indicate that the private/public partnership has been implemented successfully and that employers are central in deciding the service strategy. In the 596 local service delivery areas around the country, about 11,000 individual private employers have become members of the private industry councils and have inserted themselves actively in deciding how local training and employment services will prepare the disadvantaged for competitive employment.

1/At the local level, programs are organized by service delivery areas, typically units of general local government with populations in excess of 200,000. There are 596 of these areas and each has a private industry council that operates in partnership with local elected leaders.

- State Role - To assure the responsiveness of the training programs, while expanding administrative accountability, JTPA gives the States the primary role in program administration. Although programs operate locally, the States are responsible for: approving plans; monitoring and auditing local programs; assessing performance; operating special purpose programs (e.g., veterans, older workers, education initiatives); and conducting JTPA's dislocated worker program.

  The States undertook their new, expanded responsibilities promptly and effectively. In three-fourths of the States, the Governors have taken a personal leadership role in JTPA's implementation.

  Commensurate with the expanded State role was a reduced Federal presence, as reflected in the 75 percent reduction in Federal regulations governing training and employment services.1/

- Performance - Although the success of social welfare programs has consistently fallen short of expectations, funding continued to flow to grantees. The JTPA requires that each local program meet a set of predetermined performance standards. Surpassing these standards may qualify a program for a performance bonus; failure to attain them jeopardizes continued funding for the local projects.

- JTPA Funding - The Administration's budget proposals for JTPA have been, for the most part, adopted by the Congress. As displayed in the table on the next page, funding for the program has been maintained at a relatively steady level.

  At these levels of funding, it is estimated that in Fiscal Year 1984 in excess of 2.2 million individuals will be served under JTPA.

1/Staffing of the Employment and Training Administration, the agency that administers these activities, has been cut by almost 50 percent since 1980. This reduction reflects, in substantial part, the successful implementation of JTPA's block grant features.

FUNDING FOR JTPA

Activity	Transition Period 1/ (10/83-6/84)	Program Year 1984 (7/84-6/85)	Program Year 1985 Request (7/85-6/86)
	(Dollars in Thousands)		
Training Block Grant	1,414.6	1,886.2	1,886.2
Summer Youth Employment Program	824.5	724.5	724.5
Dislocated Workers Program	94.3	223.0	223.0
Federally Administered Programs 2/	560.4	771.5	776.9
TOTAL	$2,893.8	$3,605.2	$3,610.6

1/JTPA authorizes advance appropriations and operates on a July through June program year; therefore, an initial 9-month "transition period" was necessary to effect the shift.

2/Includes those activities administered by DOL directly: Job Corps, Indian and Native American activities; Migrant and Seasonal Farmworker program; research, demonstration and evaluation efforts.

CONCLUSION

In sum, JTPA is fully operational at the national, State and local levels. The transition from CETA to JTPA was accomplished on a timely basis and JTPA was fully operational in all States on October 1, 1983. The private/public partnership has been successfully implemented; the States have assumed lead responsibility for program administration; in about 600 local service delivery areas, training programs (instead of make-work income transfers) are preparing the disadvantaged and dislocated workers for regular sector jobs that will provide them, and their families, with economic independence.

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

July 20, 1984

MEMORANDUM FOR: THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: THE WORKING GROUP ON FEDERAL CREDIT POLICY

SUBJECT: Recent FNMA and FHLMC Initiatives

The Working Group on Federal Credit Policy has continued to consider methods to accomplish the privatization of the Federal National Mortgage Association (FNMA). Not much progress has been made, however, at least in part because of the agressive nature of FNMA in capitalizing on their relationship to the Federal Government. The following list of recent initiatives reflects FNMA's aggressive use of its ties to the Federal Government.

1. FNMA's proposal to issue mortgage-backed securities (MBSs) backed by adjustable rate and graduated payment mortgages.

On May 14, FNMA advised Secretary Pierce of its intention to issue MBSs backed by adjustable rate mortgages (ARMs) and graduated payment mortgages (GPMs). After requesting and receiving a detailed description of the proposals, Secretary Pierce granted approval to FNMA's issuance of ARM and GPM MBSs citing that the securities will further the purposes of the FNMA Charter Act by providing a degree of liquidity for mortgage investments.

2. FNMA's proposal to develop a retail market for MBSs by lowering the minimum certificate denomination to $1,000.

FNMA also advised Secretary Pierce on May 14 of its intention to develop a retail market for its MBSs by lowering the minimum certificate denomination from $25,000 to $1,000 for certain pools of mortgage loans. On June 12, John Knapp responded for the Secretary requesting more information on 1) how FNMA will provide for investor protection considering the exemption of FNMA securities from the disclosure requirements of securities laws, 2) how protection afforded by FDIC or FSLIC will apply to accounts in which interests in FNMA securities are held, and 3) any other variations from the current conventional MBS program that will be adopted for this program designed for small investors. Although FNMA has provided some additional information, this proposal is still pending.

3. FNMA's proposal to cancel FHA mortgage-insurance on its inventory of seasoned single-family mortgages.

FNMA has discussed with HUD the possibility of cancelling FHA mortgage insurance on FNMA's holdings of FHA-insured, single-family mortgages that are at least 12 years old. FNMA currently owns about $2.5 billion of these mortgages and within the next three years it expects another $1 billion of the FHA-insured, single-family mortgages that it owns to become 12 years old.

FHA-insured mortgagors currently pay annual mortgage insurance premiums to FHA of .5% of the outstanding mortgage balance. However, because of repayments of principle and inflation of property values, the risk that FHA will ever have to pay a claim on these properties is miniscule. FNMA is considering an offer to FHA-insured mortgagors to cancel their insurance (both mortgagor and mortgagee must agree to cancel the insurance). FNMA would then insure the mortgages itself, charge lower premiums (.4%) than FHA, but still make profits because the expected costs are so low. Mortgagors will probably agree to FNMA's proposal because of the lower premiums and because FHA will refund to the mortgagor a portion of the premiums previously paid.

If FNMA goes ahead with this proposal then FHA will lose the premium income and end up insuring slightly less low-risk, seasoned mortgages and proportionately more high-risk, low down payment mortgages.

Because HUD has several concerns about the proposal, FNMA is considering revisions, particularly with respect to the timing of its implementation and provision of complete information to homeowners on the long-term costs of the different options.

4. FNMA's program to provide MBS guarantees to tax-exempt multifamily housing bonds.

Over the last several months, FNMA has begun a program where they use their Federal agency status to enhance the credit worthiness of tax-exempt, multifamily housing bonds. Although 50 or 60 transactions are being considered, only a handful have actually taken place so far. HUD is studying whether or not FNMA is required to obtain HUD's approval to operate the program.

The Working Group has also continued to consider methods to accomplish the privatization of the Federal Home Loan Mortgage Corporation (FHLMC) and some progress has been made. Partially as a result of the fact that the Deficit Reduction Act eliminated FHLMC's exemption from Federal income taxes, the Federal Home Loan Bank Board (FHLBB) has begun a study of methods to privatize FHLMC. As a first step, the FHLBB is considering transferring ownership of FHLMC stock to thrift institutions. Currently, all of the FHLMC's common stock is held by the Federal Home Loan Banks. The stock is nonvoting, so this action will not alter Bank Board's control of FHLMC. However, the stock transfer can be interpreted as a step toward making FHLMC more like FNMA rather than as the first step toward privatization. The Working Group will continue to monitor the Bank Board's actions.